

Introduction to Public Financial Management

Muhammad Gaus Samdani FCA
Head of GL Controls, Brac Bank PLC

Public Sector

- Public sector consists of all level of government and government-controlled enterprises.
- The area of public sector varies across the world.
- Ownership, objectives and other relevant factors create the differences between the public and private sector.
- Public Financial Management (PFM) addresses the wide range of public sector financial activity including (1) budget formulation, (2) budget execution, (3) accounting and reporting and (4) external security and audit.
- Legal and administrative framework of PFM is often defined in the national rules.

What is Public Sector?

- Public sector is a part of economy that consists of all level of government and government-controlled enterprises.
- It provides marketable and non-marketable goods to the people.

Area of Public Sector

- Core organizations at different layers of government (central, intermediate and local)
- State owned commercial and non-commercial enterprises (SOEs)
- Autonomous governmental agencies
- and Organizations that operate outside the government but are regulated and operated by the government

Differences between the Public sector and Private Sector

Area of Differences	Public Sector	Private Sector
Objective	The main objective of the public sector is to engage in the activities that serve the citizen of the country.	The main objective of the private sector is to earn profits from business operation.
Ownership	Public sector is owned by and operates on behalf of the public.	Private sector is owned by individuals or entities.
Sources of fund/capital	The sources of fund for public sector are collections from tax, excise and other duties, bonds, treasury bills and others.	The capital of private sector entities comes from its owners or through loans, issuing shares and debentures and others.
Operation	The public sector is operated for the common benefits of the people. Therefore, its operation is very important to achieve the state policy.	Private sector is operated for the profits of the owner.
Types of goods provided	Public sector provides mostly public goods or non-marketable services. It provides provide marketable goods often.	Private sector provides marketable goods to the individuals, business and organizations.

Public Financial Management

“Public Financial Management is concerned with the laws, organizations, systems and procedures available to governments wanting to **secure and use resources effectively, efficiently and transparently**.

Main focus is **expenditure management**, especially in the context of public budgeting.

Functions of PFM evolve around the annual budget cycle, listed below–

1. Fiscal framework
2. Budget formulation
3. Budget execution
4. Accounting and reporting
5. External security and audit

Public Financial Management (cont)

- **Fiscal Framework:** National fiscal frameworks are rules, regulations and procedures that influence how budgetary policy is planned, approved, carried out, monitored and evaluated.
- **Budget Formulation:** Budget formulation is a process with designated organizations and individuals having defined responsibilities that must be carried out within a given timetable. In general, a legal and regulatory framework establishes and controls the process of budget formulation.
- **Budget execution:** Budget execution involves a number of stages. It starts from the stage of authorization and passes through the stage of commitment, verification, payment order, payment stage and accounting stage. In the sense of delivering services by undertaking, budget execution is the responsibility of the line ministries and spending agencies within regulatory controls set by the ministry of finance.
- **Accounting and reporting:** Accounting and reporting indicates the fiscal financial reporting of the PFM. The information of fiscal financial reporting helps to understand the budget execution scenario.
- **External security and audit:** Public sector audit verify the accounts of all governmental departments, agencies and other public bodies on behalf of the tax payers and report to parliament as required by the statute. The practice of public sector auditing is different than the private sector and is changing over time.

Legal and Administrative Framework of Public Financial Management

- The legal and administrative framework of Public Financial Management (PFM) underlies in the tax laws, budget systems laws, local government finance laws and in the constitution of the country.
- In unitary states, national parliaments may adopt a law that applies at all levels of government, or it may adopt two budget system laws, one relating to central government and the other to local governments. Besides laws, there are many regulations relating to the various aspects of public finances.
- Countries differ as to the hierarchical structure of laws and regulations. At the highest level, the constitution provides the framework for all laws. Government or presidential regulations/orders and ministerial decrees/instructions elaborate on the principles enunciated in the higher-ranked law(s).

Interactive Question 1:

- If there is any problem among the existing laws, which one has to be followed in the public sector including public sector financial reporting?

Budgeting Process

- Budget is prepared by the legislature
- The constitutions and the relevant laws permits the budget preparation
- Some characteristics ensure the sound budget systems
- Budget preparation steps proceeds through the 1) strategic steps, 2) Guidelines and submissions and 3) Review, negotiation and reconciliation.
- Budget classification is very important for policy formulation and analysis, it ensure compliance with the legislative authorizations and financial regulations and day to day administration of the budget.

The Budget

The budget of a public sector entity provides a comprehensive plan of its revenues and expenditures for a period of generally one year.



for all the public sector entity by the respective authorities. The central government budget is usually authorized by the legislature, while the budgets of sub-national governments (state and local governments) are authorized by their own legislatures or



Budgets of certain semi-autonomous government agencies, social security funds and Public enterprises have their own budgets approved by their boards.

The Budgeting Law

- The legislature is generally supreme in budget matters
- In Bangladesh, **article 87 and 89 of the Constitution states the guidelines for preparation of Annual Financial Statement (AFS) commonly known as budget.**
- Article 10 of the Public Money and Budget Management Act (PMBA) 2009** requires that the finance minister shall **place annual budget in the Parliament before the beginning of each fiscal year.**
- In Bangladesh, the followings act/rules are followed to prepare the budget
 - Constitution of Bangladesh, 1972 (Ch. II, Legislative and Financial Procedure, Article 80-92, 87-Annual Financial statement)
 - Rules of Procedure of Parliament of the People's Republic of Bangladesh 1973 (Rule-111-127)
 - General Financial Rules, 1951, updated 1998 (Budget, Grants, and Appropriations)
 - Preparation of the Budget (Secretariat Instruction, 1976 updated 2008)
 - The Public Moneys & Budget Management Act, 2009

Basic Principles for a Budget system

Accountability

Annual basis

Authoritativeness

Balance

**Common pooling
of revenues**

Comprehensiveness

Performance

Specificity

Stability

Transparency

The Budgeting Approach

Inputs/Mean Oriented: traditional budgeting. It show the relationship between taxpayer funds (input) and the output of services provided by the state and federal governments.

It is a type of budget that reflects both the funding levels (input) and the expected output from each unit of the [organization](#).

The output/input budgeting method is often used by governments to show the relationship between taxpayer funds (input) and the output of services provided by the state and federal governments.

Result Oriented: Result oriented approach is known as modern budgeting. It reflects the actual objective of budgeting.

Is a thinking on how budgets can be sanctioned and appropriately resourced to each intended result of a program. In implementation, RBB can provide greater focus on financial flexibility and auditing, which can assist in achieving an adaptive approach to budgeting and results.

Budget preparation activities	Orientation
Ministry of Finance (MOF) prepare forecasts	Strategy setting
MOF prepares fiscal strategy with ceilings	
Cabinet approves fiscal strategy and ceilings	
Legislature approves fiscal strategy	Guidelines and Submissions
MOF issues budget circular	
Ministries submit budget requests	
Budget negotiations and reconciliation	Review, negotiation and reconciliation
Cabinet approves draft budget	
Budget submitted to legislature	
Legislature approve budget	Approval

Steps of Budget Preparation

Strategy setting

- Limits on total expenditure. Consistent with medium term fiscal objectives and targets
- Identifies sectoral priorities for services and public investment
- Ceilings on expenditure for spending ministries
- Understanding assumptions and potential fiscal risks

Guidelines and submissions

- Budget circulars. It includes macro fiscal targets and information, budget priorities and ceiling and procedural guidelines for submissions.
- Ministries submit budgets within ceilings according to guidelines

Review, negotiation and reconciliation

- Ministry of Finance (MOF) reviews submissions to ensure compliance with policy, limits and effectiveness
- MOF suggests revisions and negotiates with spending ministries
- MOF reconciles final submissions with expenditure ceilings
- Draft budget is approved by the Cabinet / President

Budget influencing factors and practice in Bangladesh

• **Influencing factors:**

- Constitutional provisions
- Political contexts and traditions of a country.
- Available resources

• **Practices in Bangladesh:**

The Ministry of Finance is mainly responsible to prepare and place the budget before the parliament. 3 divisions are involved in preparing the budget

- i. Finance Division
- ii. Economic Relations Division
- iii. Internal Resources Division (National Board of Revenue)

Moreover, Planning commission, Line ministries, Division and Agencies cooperate in the process of preparing the budget.

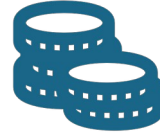
Step by Step process



Budget Circular 1 (BC 1) is issued in December of each year in Bangladesh. It is the first official documents between Finance Division (FD) and Ministries (or Divisions) to prepare a budget.



To make the budget effective and implement properly, Medium term budget is prepared.



The Finance division prepares Medium Term Macroeconomic Framework (MTMF) to forecast the possible resources for funding expenditure budget.



A Coordination Council chair by the Finance Minister approves the MTMF and finalise the amount of total resources for the upcoming Fiscal Year's budget. The total resources is divided among the Ministries, Divisions and Institutions (MDIs)



MDIs also prepare their budget in detail complying with the ceiling (as per BC1). The budget of MDIs is reviewed by the Finance Division, Planning Commission and the respective Ministry in a meeting to finalize the resource ceiling. Through Budget Circular 2 (BC-2), the finalized resource ceiling is communicated.

Recent Reformation

- Since 1990, Bangladesh is reforming Public Financial Management (PFM) with the association of development partners. Budget framework has been reformed significantly recently under these reforms. MTBF is one of the outcomes of PFM reforms.
- Before 2006, the budget was prepared for a single year without ensuring the scope of analysis. It followed a top-down and input based approach. There was no link between priority of the ministry and resource ceiling, resources allocation and performance. In FY2006, the government of Bangladesh adopted result-based budgeting approach.
- In result-based budgeting approach, MTBF plays an important role. There are interlinks between MTBF and annual budget. The MTBF provides a framework for revenue receipts and expenditures that comprises both Operating and Development portions of the budget. The framework includes estimated budget for the proposed budget year and the projections for two outer years.
- Under this framework the estimates/projections for both Operating and Development expenditure need to be accommodated within the preliminary indicative expenditure ceiling for the relevant year as indicated earlier. Each year, the MTBF process involves rolling forward of the previous estimate by one year and the addition of a new outer year.

Basic Concepts

-
- $\text{Revenue} = \text{Tax} + \text{Non-tax}$
 - $\text{Expenditure} = \text{Revenue} + \text{Development}$
 - $\text{Expenditure} - \text{receipts} = \text{Deficit}$
 - Deficit Financing Requires Borrowing. It can be borrowed from external sources (for example loans, grants, project aid and others) or from the internal sources (for example, loans from banks and from non-banking sources)

Interactive Question 2 What is the current approach of budget system in Bangladesh?

Budget Classification systems

- For revenues, the budget code will be structured taking into account the different economic categories, sub-categories and lower-level divisions of revenues.
- For expenditures, the “budget code” should be used at each stage of the expenditure cycle from the appropriation to the payment. It will be built by combining the codes of the different dimensions of the budget expenditure classification system.
- A basic expenditure classification system includes at least: (i) an administrative classification, which identifies the administrative divisions responsible for budget management; (ii) an object (or line-item) classification, which usually classifies expenditure by economic category; and (iii) in aid-dependent countries a financing source classification.

Budget classification system in Bangladesh

Bangladesh has attempted to follow the budget classification. Under the reformation initiative, Ministry of Finance (MoF) declared to adopt the budget classification systems and prepare the budget through automation.

A manual entitled “Budget and Accounting Classification Manual” has been circulated in this regard. Currently, governments usually adopt multidimensional classification systems that incorporate at least four essential dimensions. These are:

- Classification by administrative unit;
- Classification by function;
- Classification by economic feature; and ,
- Classification by program.

•**Interactive Question 3:**Why is budget classification important?

•**Interactive Question 4:**How does budget classification linked to accounting?

International Standards for Fiscal Reporting

To facilitate budget policy analysis and international comparisons, the budget classification must enable reporting according to certain international standards for fiscal reporting. These standards are defined in the 2001 version of the Government Finance Statistics Manual (GFSM 2001) of the IMF. They include the following:

- The GFSM 2001 economic classification of revenues, expenses and other government financial transactions
- The classification of functions of government (COFOG)

Budget Execution

- After the preparation and approval of the budget, it is the responsibility of the line ministries, divisions, and spending institutions to execute the budget. The MDIs spend the budget within regulatory controls set by the Finance Division in delivering services and implementing development projects.

Accounting and Reporting Standards

- Accounting follows budgeting and precedes auditing to produce financial information useful for understanding and assessing a government's financial conditions.
- The objective of public sector accounting and reporting is to ensure the accountability of spending the public money.
- Government and not-for-profit organizations establish their accounting systems on a fund basis.
- IPSASB initiated their project 'International Public Sector Accounting Standard (IPSAS)' in late 1996.
- There are two types of IPSAS: Cash basis and accruals basis
- A well-functioning accounting and financial management system is the foundation of a government's capacity to allocate and use resources efficiently and effectively.

Public Sector Accounting

- In the public financial management (PFM) cycle, accounting follows budgeting and precedes auditing to produce financial information useful for understanding and assessing a government's financial conditions.
- Financial accounting of public sector accounting concerned with measuring the financial consequences of actual transactions and events – is regulated by rules to ensure the quality of both the inputs and outputs of the accounts of governments.
- Some of the rules, called accounting standards, are proposed for adoption by a government as its accounting policies for actual implementation.
- Public sector accounting practices varies across the world. Where some countries are following accrual basis accounting, some countries are following cash basis accounting. In the meanwhile some countries are trying to transform the accounting from the cash basis to accrual basis accounting.

Objective of Public Sector Accounting and reporting

- The objective of public sector accounting and reporting is to ensure the **accountability of spending the public money**. As per International Public Sector Accounting Standard (IPSAS),
 - The objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of GPFRs (General purpose financial reports) for accountability purposes and for decision-making purposes (hereafter referred to as “useful for accountability and decision-making purposes”). [IPSAS, section 2.1]
 - Financial reporting is not an end in itself. Its purpose is to provide information useful to users of GPFRs. The objectives of financial reporting are therefore determined by reference to the users of GPFRs, and their information needs. [IPSAS, Section 2.2]

Accountability and Statements in Public Sector

Governmental financial reporting statements are quite different from those prepared by business organizations. In general, two sets of statements are required to maintain in public sector accounting. They are

- 1) Fund Financial Statements and
- 2) Government-wide Financial Statements.

Dual Roles of Governmental Financial Statements in Assessing Accountability

	Operational Accountability	Fiscal Accountability
Statements	Government-wide financial statements (governmental and business-type activities) and those of proprietary funds and fiduciary funds	Governmental fund financial statements
Measurement focus	Flow of economic resources	Flow of current financial resources
Basis of accounting	Accrual basis (revenues and expenses are recognized when exchange of economic resources occurs or per IPSAS recognition rules for none change transactions, such as taxes, contributions, and grants)	Modified accrual basis (revenues are recognized when resources are measurable and available for current spending; expenditures are recognized when an obligation to spend current financial resources is incurred)

Fund accounting

- Government and not-for-profit organizations establish their accounting systems on a fund basis.
- A fund is a separate fiscal entity with its own resources, its own liabilities, and its own operating activity for the fiscal period. Furthermore, a fund conceptually has its own set of accounting records (e.g., journals and ledgers) and can have prepared for it separate financial statements. Thus, it is a separate accounting entity as well.
- Specifically, a fund assists in carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. As this sentence implies, different funds are intended to achieve different objectives. Funds may be established by grant or contract provisions imposed by external resource providers, by state or local laws or regulations, or by the discretionary action of governing bodies.

Fund Categories

governmental

- 1) the General Fund, 2) special revenue funds, 3) debt service funds, 4) capital projects funds, and 5) permanent funds

proprietary

- 1) internal service funds and 2) enterprise funds.

fiduciary

- 1) agency funds and three types of trust funds: 2) investment trust funds, 3) pension trust funds, and 4) private-purpose trust funds

Example of dual track approach:

- The City of Princeton issued a two-year note in the amount of BDT3,000,000 to finance the acquisition of five new fire trucks. The proceeds of the note and the expenditure for the fire trucks are to be accounted for in the General Fund. The city maintains a general journal and general ledger for the General Fund and a separate general journal and general ledger to record the effect of transactions on governmental activities at the government-wide level.
- The issuance of the two-year note by the City of Princeton has very different effects on the General Fund and governmental activities, as shown in journal entries 1a and 1b.

Accounting Entry

General Ledger		
	Debit (BDT)	Credit (BDT)
General Fund		
1a. Cash	3000000	
Other Financing Sources-Proceeds of two year note		3000000
Governmental Activities, Government-wide		
1b. Cash	3000000	
Note Payable		3000000

Accounting Entry

General Ledger

	Debit (BDT)	Credit (BDT)
--	-------------	-----------------

General Fund

2a.	Expenditures – Capital Outlay	3000000	
	Cash		3000000

Governmental Activities, Government-wide

2b.	Equipment	3000000	
-----	-----------	---------	--

Fund accounting in Bangladesh

- The framework of current PSA of Bangladesh is defined in the Constitution of People's Republic of Bangladesh (from article 80 to 92).
- As per the constitution, there are two funds in Bangladesh. Article 84 requires that all receipts, proceeds of loans and grants, loan repayments to the governments shall be accounted for in the **Consolidated Fund**. All other money received by the government go into a collection of funds called the **Public Accounts of Republic (PAR)**.
- Article 85 requires that all payments shall be by parliamentary act or presidential rule. **The use of fund is required to be reported through financial statements.** The public funds are used by the government ministries, divisions, departments of the departmentalized ministries (including Telegraph and Telephone, Postal, Railway, Defense), local government institutions (city corporations, municipalities, etc.) and public enterprises. The constitution provides for the government to prepare annual financial statements of the government (Finance Accounts) in two parts: the Consolidated Fund and the Public Accounts.
- The funds and financial statements (Finance Accounts) are prepared based on cash basis accounting.

Public Sector Accounting Standard

- Public Sector accounting standards have been developed nationally and internationally. Internationally, International Public Sector Accounting Standard Board (IPSASB) is developing standards.
- IPSASB initiated their project 'International Public Sector Accounting Standard (IPSAS)' in late 1996. IPSASB is a specialized organization that established in May, 1986 as an independent standard setting body under the backing of IFAC. The objective of IPSASB is to develop high-quality accounting standards for the use by the public sector entities around the world in the preparation of general purpose financial statements and to facilitate the convergence of internal and national standards to ensure uniform financial report throughout the world (IFAC, 2009).
- The standards of IPSASB are reviewed by a group, namely, Financial Stability Board (FSB), IOSCO, and INTOSAI. The review group is chaired by representatives of the International Monetary Fund (IMF), the World Bank, and the Organization, for Economic Co-operation and Development (OECD) (IPSASB (2014)). It has been claimed that more than 80 countries, along with many international organizations, including the UN System Organizations, have adopted, or are in the process of adopting, IPSAS, either directly or indirectly.

IPSAS and Approached to Adoption

Cash basis

The cash basis IPSAS allow for transparent financial reporting of cash receipts, payments and balances, under the cash basis of accounting.

There is currently only one cash basis IPSAS.

Very few government organisations have so far implemented the requirements of the cash basis IPSAS on the grounds that its key requirement is to produce consolidated financial statements for all controlled entities.

Interactive Question 5 Which reporting Standard has been promised to adopt in the Public Sector of Bangladesh?

Accruals basis

The accruals-based IPSAS focus on revenue, cost, assets, liability and equity, instead of cash flow only, and most are based on an equivalent IFRS.

About 30 countries are adopting the accruals basis IPSAS

Some are adopting IPSAS directly whilst others are adopting IPSAS through their own national standards.

Various supranational organisations have also adopted IPSAS, including the entire UN system, the OECD, NATO and the EU.

Reporting Entity

Public sector entities have separate legal identities, many public sector organisations, programmes and activities may also raise and deploy monies, acquire and manage public assets, incur liabilities etc. without having a separate legal identity.

Service recipients and resource providers may depend on the GPFR for decision making purposes and hence a public sector organisation, programme or activity can be a reporting entity **without having a separate legal entity.**

Usually legislation, regulation or other authority will require a public sector organisation/activity to prepare GPFR but in some cases GPFR may be prepared on a voluntary basis. For accountability and decision-making purposes, service recipients and resource providers will often require information a group of entities. This could include:

- a group of separate entities that make up the government as a whole, or;
- a group of separate entities that comprise a government ministry or otherwise work together to deliver a particular government program.

Therefore, a key characteristic of a group reporting entity is the existence of service recipients and resource providers who are dependent on GPFR prepared in respect of the group for the information they need for accountability and decision-making purposes.

Components of Financial Statements

- As per IPSAS, A complete set of financial statements comprises:
 - (a) A statement of financial position;
 - (b) A statement of financial performance;
 - (c) A statement of changes in net assets/equity;
 - (d) A cash flow statement;
 - (e) When the entity makes publicly available its approved budget, a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the financial statements;
 - (f) Notes, comprising a summary of significant accounting policies and other explanatory notes; and
 - (g) Comparative information in respect of the preceding period as specified in paragraphs 53 and 53A of IPSAS 1.
- **Interactive Question 6** What financial statements are prepared in Bangladesh?

Objective of IPSASB

The objective of the IPSASB is to serve the public interest by developing high-quality accounting standards and other publications for use by public sector entities around the world in the preparation of general purpose financial reports.

This is intended to enhance the quality and transparency of public sector financial reporting by providing better information for public sector financial management and decision making. In pursuit of this objective, the IPSASB supports the convergence of international and national public sector accounting standards and the convergence of accounting and statistical bases of financial reporting where appropriate; and also promotes the acceptance of its standards and other publications.

In fulfilling its objective, the IPSASB develops and issues the following publications:

- IPSASs as the standards to be applied in the preparation of general purpose financial reports of public sector entities.
- Recommended Practice Guidelines (RPGs) to provide guidance on good practice that public sector entities are encouraged to follow.
- Studies to provide advice on financial reporting issues in the public sector. They are based on study of the good practices and most effective methods for dealing with the issues being addressed.
- Other papers and research reports to provide information that contributes to the body of knowledge about public sector financial reporting issues and developments. They are aimed at providing new information or fresh insights and generally result from research activities such as: literature searches, questionnaire surveys, interviews, experiments, case studies and analysis.

Scope and Authority of International Public Sector Accounting Standards

In the preface of the IPSAS, the scope and authority of IPSAS has been mentioned. It has been mentioned that –

- The IPSASB develops IPSASs which apply to the accrual basis of accounting and IPSASs which apply to the cash basis of accounting.
- IPSASs set out requirements dealing with transactions and other events in general purpose financial reports. General purpose financial reports are financial reports intended to meet the information needs of users who are unable to require the preparation of financial reports tailored to meet their specific information needs.
- The IPSASs are designed to apply to public sector entities that meet all the following criteria:
 - (a) Are responsible for the delivery of services to benefit the public and/or to redistribute income and wealth;
 - (b) Mainly finance their activities, directly or indirectly, by means of taxes and/or transfers from other levels of government, social contributions, debt or fees; and
 - (c) Do not have a primary objective to make profits.
- Any limitation of the applicability of specific IPSASs is made clear in those standards. IPSASs are not meant to apply to immaterial items.
- The IPSASB has adopted the policy that all paragraphs in IPSASs shall have equal authority, and that the authority of a particular provision shall be determined by the language used.

Framework of Accounting

- The characteristics of the public sector that the IPSASB has considered in the development of the Conceptual Framework are given below –
 - **Non-exchange transactions** – where an entity receives value from another party without giving approximately equal value in exchange.
 - **Approved budgets** – there is often a constitutional requirement to prepare and make publicly available a budget approved by the legislature.
 - **Nature and longevity of public sector programs** – many public sector programs are long term and require funding from future taxation and contributions.
 - **Nature and purpose of assets and liabilities** – in the public sector the primary reason for holding assets is for their service potential rather than for their ability to generate cash flows.
 - **Regulatory role of public sector entities** – many governments and public sector entities have regulatory powers to safeguard public interest, either directly or through specifically created agencies.
 - **Relationship to statistical reporting** – with regards to financial information many governments produce both general purpose financial reports and government finance statistics. Whilst there is some overlap between the two reporting frameworks, IPSAS and government finance statistics reporting guidelines have different objectives and this may lead to the different treatment of some transactions and events.

Roles and Authority

- **Role:** The role of the Conceptual Framework is to establish the concepts that underpin general purpose financial reporting by public sector entities (excluding Government Business Enterprise (GBEs)) that adopt the accrual basis of accounting.
- **Authority:** The Conceptual Framework does not establish authoritative requirements for financial reporting by public sector entities and nor does it override the requirements of IPSAS but it can provide guidance in dealing with issues not dealt with in IPSAS.
- **General Purpose Financial Reports:** GPFR are an essential component of transparent financial reporting by public sector entities. GPFR are intended to meet the needs of users who are unable to require the preparation of financial reports tailored to meet their specific needs. The scope of financial reporting establishes the boundary around the transactions and other events reported in the general purpose financial reports. It is determined by the information needs of the primary users of the GPFR.
- **Applicability:** The Conceptual Framework applies to financial reporting by public sector entities other than GBE. Therefore, it applies to GPFR of national, state/provincial and local governments. It also applies to a wide range of other public sector entities including government ministries, departments, programmes, boards, commissions, agencies, public sector social security funds, trusts, and statutory authorities and international governmental organisations that are public sector entities.

Objectives and Users of General Purpose Financial Reports (GPFR)

- The objectives of financial reporting by public sector entities are to provide information about the entity that is useful to the users of GPFR for accountability purposes and for decision-making purposes.
- **Users:** GPFR of public sector entities are developed primarily to respond to the information needs of service recipients and resource providers who do not possess the authority to require a public sector entity to disclose the information they need for accountability and decision-making purposes. The legislature (or similar body) and members of parliament (or a similar representative body) are also primary users of GPFR when acting in their capacity as representatives of the interests of service recipients and resource providers. Therefore, for the purposes of this Conceptual Framework, the primary users of GPFR are service recipients and their representatives and resource providers⁸ and their representatives.
- However, GPFR may also provide information that is useful to other parties for other purposes, including government statisticians, analysts, the media, financial advisors and public interest and lobby groups.

•Users groups and their information needs

- We have seen how the Conceptual Framework is intended to help define the information needs of the GPFR's users. Users are categorised into two main groups: service recipients and their representatives and resource providers and their representatives.

Interactive Question 7 The objectives of financial reporting in the public sector

For financial performance to be reported in a meaningful way, financial reports must be relevant to their users. In order to define what makes a financial report meaningful we must first know who the likely users of the accounts are and what their needs are.

Requirement

- (a) Describe the principal uses made of a set of public sector financial reports.**
- (b) Explain who the potential 'users' of a set of public sector financial reports are, and what information they are looking for.**
- (c) For a sector of your choice, discuss whether the financial reports published meet the needs of the users of those reports.**

Objectives and Users of General Purpose Financial Reports (GPFR)

• **Accountability and decision making**

• GPFR must also consider the information needs of resource providers and their representatives. This group will require information to decide if the entity:

- Is achieving the objectives established as the justification for the resources raised during the reporting period;
- Funded current operations from funds raised in the current period from taxpayers or from borrowings or other sources; and
- Is likely to need additional (or fewer) resources in the future, and the likely sources of those resources.

• **Information needs**

• Within the resource providers and their representatives group, lenders and creditors will require information to help assess the liquidity of the entity and to confirm that the amount and timing of repayment will be as agreed. Donors will require information to help decide if the entity is using resources economically, efficiently, effectively and as intended. They will also need information about the entity's anticipated future service delivery activities and resource needs.

• **Information provided by General Purpose Financial Reports**

• GPFR provide information on the financial performance, financial position and cash flows of a government or other public sector entity. This information will inform assessments of matters such as whether the entity has acquired resources economically and used them efficiently and effectively to achieve its service delivery objectives.

Integrated Financial Management Information Systems (IFMIS)

- A well-functioning accounting and financial management system is the foundation of a government's capacity to allocate and use resources efficiently and effectively. In the absence of automation, countries rely on manual systems to process, record, manage, and report the government's financial transactions. Manual processes and systems can work well if they are supported by trained and disciplined staff. Automation holds the promise of improved recording, reporting and management of public finances (hence the wide interest in FMIS); however, it alone does not guarantee more comprehensive, transparent, accountable and legitimate public finances. Automation is a means to an end, not an end in itself. While often considered to be no more than a technical solution designed to increase the reliability and security of a government's accounting, financial reporting and internal control procedures, an FMIS also exerts substantial leverage by facilitating the introduction of Public Financial Management (PFM) reforms in many other areas, program budgeting or medium-term expenditure frameworks for example. Many FMIS projects follow this logic.
- An FMIS can be broadly defined as a "set of automation solutions that enable governments to plan, execute and monitor the budget, by assisting in the prioritization, execution, and reporting of expenditures, as well as the custodianship and reporting of revenues" (World Bank 2011). A narrower definition of an FMIS is the set of systems and procedures that automates the financial operations of both the budget preparation and treasury functions of government by recording all transactions, implementing controls and tracking financial events. The initial automation usually involves the general ledger (the final repository of accounting records and data) and the chart of accounts (the list of accounts used by governments for classifying expenses).